Smooth Sailing on the Uncertain Waters of Retirement

Advanced Markets

How life insurance cash values can stabilize your retirement sequence of return

The **sequence of returns** on your investments is a critical element in retirement planning

Financial professionals often use a variety of techniques involving asset allocation to develop strategies that help ride out these highs and lows.

However, the focus during your accumulation years, leading up to retirement, can be very different than those in your retirement years. The reason is simple:

During your working, accumulation years, you are moving toward a goal. When you hit that goal, your target number, you know you can elect to retire. Market highs and lows present a challenge, but the financial path to retirement is focused on achieving a targeted number to give you peace of mind.

Once you enter your retirement phase, market highs and lows present a different challenge. If retirement distributions begin in a stable or rising market, you have the potential to preserve or even grow your retirement assets. If you begin retirement distributions in a declining market, you are both drawing down on your assets and selling into losses. Your retirement assets may begin to erode faster than initially planned.

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Is the Smooth Sailing approach right for you?

Life insurance may provide you with a strategy that offers your family protection during your working years, but also an alternative source of retirement funds to help protect against retiring in a down market.

- You have a life insurance need.
- Are 35-55 years old.
- Are already funding traditional retirement options (IRAs and 401(k)s), but have a need for additional funding.
- Are concerned about what will happen to your retirement funds in the event of a market drop while you are in or approaching retirement age.

In every 20-year period, from the 1950s to the present, the S&P 500® has suffered anywhere from four to six losses. The trick is to not retire into these loss periods, but you might never know. **Smooth Sailing potentially offers an option using cash value life insurance.**

The sequence of returns makes all the difference

Markets and investments fluctuate from year to year, but the effect they can have on your portfolio varies widely depending on if you are building assets toward retirement or if you are consuming those assets in retirement.

Here's how three different $250,000 retirement portfolios with three different sequences of returns built up over 25 years from a client's age 40 to retirement at age 65, each reaching a $1,000,000 retirement goal.

	Sequence A		Sequence B		Sequence C	
Age	Hypothetical S&P 500® return	Year-end value	Hypothetical S&P 500® return	Year-end value	Hypothetical S&P 500® return	Year-end value
40		$250,000		$250,000		$250,000
41	5%	$262,500	-25%	$187,500	6%	$265,000
42	28%	$336,000	-14%	$161,250	6%	$280,900
43	22%	$409,920	-10%	$145,125	6%	$297,754
44	-5%	$389,424	16%	$168,345	6%	$315,619
45	20%	$467,309	21%	$203,697	6%	$334,556
46	19%	$556,097	5%	$213,882	6%	$354,630
47	23%	$684,000	-16%	$179,661	6%	$375,907
48	9%	$745,560	8%	$194,034	6%	$398,462
49	16%	$864,849	14%	$221,199	6%	$422,370
50	23%	$1,063,765	24%	$274,521	6%	$447,712
51	22%	$1,297,793	14%	$312,954	6%	$474,575
52	-26%	$960,367	5%	$328,602	6%	$503,049
53	-15%	$816,312	-15%	$279,312	6%	$533,232
54	5%	$857,127	-26%	$206,691	6%	$565,226
55	14%	$977,125	22%	$252,163	6%	$599,139
56	24%	$1,212,673	23%	$310,160	6%	$635,088
57	14%	$1,382,447	16%	$359,786	6%	$673,193
58	8%	$1,493,042	9%	$392,166	6%	$713,584
59	-16%	$1,254,156	23%	$482,365	6%	$756,400
60	5%	$1,316,863	19%	$574,014	6%	$801,783
61	21%	$1,593,405	20%	$688,817	6%	$849,890
62	16%	$1,848,349	-5%	$654,376	6%	$900,884
63	-10%	$1,663,514	22%	$798,338	6%	$954,937
64	-14%	$1,430,622	28%	$1,021,873	6%	$1,012,233
65	-25%	$1,072,967	5%	$1,072,967	6%	$1,072,967

Portfolios A, B & C all grew from $250,000 to just over $1,000,000. **They had the same end result, but:**

Portfolio A begins with a sequence of returns that is positive in the early years, turning negative in the later years.

Portfolio B has a sequence of returns that is the exact opposite of Sequence A — negative in the early years, but positive in the later years.

Portfolio C has a sequence that is a level 6% year-over-year return.

In the end — all reach the same goal. They just took different paths.

Everything changes in retirement

Life insurance can help by offering an alternative source of funds in retirement, its cash surrender values, while offering family protection during your working years.

Look what happens to the $1,000,000 portfolio in retirement as it faces the **same market conditions** and **sequence of returns,** while drawing down living expenses in retirement.

	Sequence A			Sequence B			Sequence C		
Age	**Hypothetical S&P 500® return**	**Annual begin year withdrawal**	**Year-end value**	**Hypothetical S&P 500® return**	**Annual begin year withdrawal**	**Year-end value**	**Hypothetical S&P 500® return**	**Annual begin year withdrawal**	**Year-end value**
65	$1,000,000			$1,000,000			$1,000,000		
66	5%	-$85,000	$960,750	-25%	-$85,000	$686,250	6%	-$85,000	$969,900
67	28%	-$85,000	$1,120,960	-14%	-$85,000	$517,075	6%	-$85,000	$937,994
68	22%	-$85,000	$1,263,871	-10%	-$85,000	$388,868	6%	-$85,000	$904,174
69	-5%	-$85,000	$1,119,928	16%	-$85,000	$352,486	6%	-$85,000	$868,324
70	20%	-$85,000	$1,241,913	21%	-$85,000	$323,658	6%	-$85,000	$830,324
71	19%	-$85,000	$1,376,727	5%	-$85,000	$250,591	6%	-$85,000	$790,043
72	23%	-$85,000	$1,588,824	-16%	-$85,000	$139,097	6%	-$85,000	$747,345
73	9%	-$85,000	$1,639,168	8%	-$85,000	$58,424	6%	-$85,000	$702,086
74	16%	-$85,000	$1,802,835	14%	-$58,424	$0	6%	-$85,000	$654,111
75	23%	-$85,000	$2,112,937	24%	$0	$0	6%	-$85,000	$603,258
76	22%	-$85,000	$2,474,083	14%	$0	$0	6%	-$85,000	$549,354
77	-26%	-$85,000	$1,767,921	5%	$0	$0	6%	-$85,000	$492,215
78	-15%	-$85,000	$1,430,483	-15%	$0	$0	6%	-$85,000	$431,648
79	5%	-$85,000	$1,412,757	-26%	$0	$0	6%	-$85,000	$367,447
80	14%	-$85,000	$1,513,643	22%	$0	$0	6%	-$85,000	$299,393
81	24%	-$85,000	$1,771,518	23%	$0	$0	6%	-$85,000	$227,257
82	14%	-$85,000	$1,922,630	16%	$0	$0	6%	-$85,000	$150,792
83	8%	-$85,000	$1,984,641	9%	$0	$0	6%	-$85,000	$69,740
84	-16%	-$85,000	$1,595,698	23%	$0	$0	6%	-$69,740	$0
85	5%	-$85,000	$1,586,233	19%	$0	$0	6%	$0	$0
86	21%	-$85,000	$1,816,492	20%	$0	$0	6%	$0	$0
87	16%	-$85,000	$2,008,531	-5%	$0	$0	6%	$0	$0
88	-10%	-$85,000	$1,731,178	22%	$0	$0	6%	$0	$0
89	-14%	-$85,000	$1,415,713	28%	$0	$0	6%	$0	$0
90	-25%	-$85,000	$998,035	5%	$0	$0	6%	$0	$0

Only Sequence A, where the portfolio began with a positive return, held up for 25 years, ending nearly with the same amount.

In Sequence B, you retire in the opposite sequence of returns. With early year losses, your portfolio can be wiped out before you are very far into your 70s.

Even with a level annual sequence of returns, you may not solve running down retirement assets much past life expectancy.

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How life insurance can help smooth the uncertain waters of retirement

Tom is age 65 and has accumulated $1,000,000 toward his retirement. Like many people today, he knew he had to build a retirement pool of his own. To maintain his current standard of living, he needs $100,000 a year in retirement and he has a little coming in for support from other sources:

- **Social Security — $20,000**
- **Pension — $10,000**
- **Tom's savings — need to make up the other $70,000**

Tom knows he needs to draw from his $1,000,000 retirement fund at $70,000 per year. However, he's concerned that if the stock market is unstable, he may not have sufficient funds.[1] He works with his financial professional and they look at a 20-year return for the market, until he's age 85. They don't look to the 1980s and 1990s, where markets saw increases in most years. Instead, they look to what the market experienced in the 1970s and 1980s, when there was a mix of gains and losses. In fact, they look at 1973-1993, when the market started with a sequence of several negative market years.

Tom's results without life insurance		
Starting balance at age 65	**Annual retirement fund withdrawals and 1% inflation**	**Tom's retirement fund balance at age 85**
$1,000,000	$70,000	$491,817

This is the result Tom might see (assuming the same market returns as in the 1970s and 1980s). This is the result of ONLY 5 down years over a 20-year period, and assuming a very low 1% inflation. They thought this was a conservative approach. In fact, if Tom and his financial professional used the S&P 500® performance from 2000-2015, Tom's retirement assets would have been eliminated in just 11 years (his age 76).

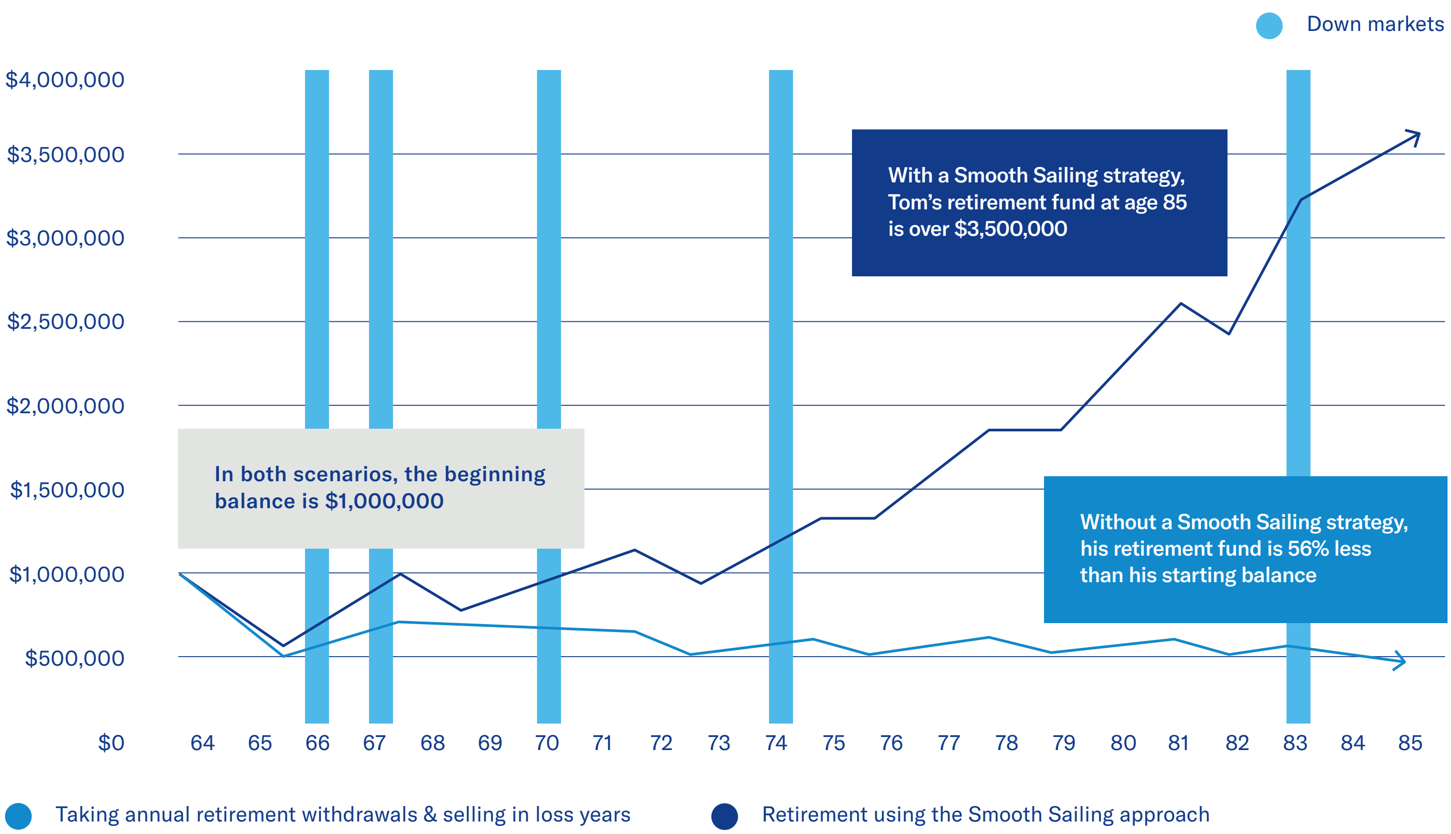
By taking funds out of his retirement savings year in and year out, Tom is forced to sell into loss years. In effect, Tom locks in and exacerbates his losses during down market years.

Smooth Sailing — A possible strategy with life insurance

Tom has one advantage that his financial professional brings to his attention. When he was in his 40s, Tom bought a cash value life insurance policy. At the time, the insurance was intended to protect his family if something happened to him during his working years. Now, at age 65, the policy has a modest cash surrender value that Tom can access to help supplement his retirement.

His financial professional shows Tom a strategy called Smooth Sailing, where he can supplement his retirement income in a way that may give him an answer to his retirement challenge. Tom continues to take distributions from his $1,000,000 retirement pool. However, in years following a down market, Tom could instead access his policy's cash surrender values and avoid selling into his market losses.

The gray bars below represent the 5 down market years during the 1970s and 1980s. These are the years that Tom would take a distribution from his life insurance policy instead of his retirement pool.



Past performance is not indicative of future results. Clients cannot invest directly in the S&P 500® Index.

As a result, Tom preserves his traditional retirement funds, allowing them time to recover. Adding a cash value life insurance policy to the mix lets Tom avoid selling in down years and locking in losses. What's more, using life insurance — an asset with different taxation — may enhance Tom's retirement fund and allow him to leave a legacy to his family. Using cash value life insurance in retirement allows Tom to smooth the sailing on the uncertain waters of retirement.

How life insurance benefits can help clients smooth the uncertain waters of retirement

By purchasing permanent cash value life insurance instead of term insurance, Tom provided for his family in multiple ways:

- He has the death benefit during his working years to protect his family.
- At retirement, he has a reasonable cash value that he can tap in retirement, as needed.
- He has an asset with special tax treatment.
- By using the Smooth Sailing approach with life insurance, Tom can also potentially provide his family with a legacy by not depleting his assets in retirement.

How the numbers work

Here's a year-by-year charting of how Tom's $1,000,000 retirement nest egg might be eroded, or might be spared based on his electing to supplement his retirement savings with a cash value life insurance policy.

Retirement account with 1% inflation					
Age	**Beginning of year balance**	**Annual withdrawal**	**Post-withdrawal balance**	**Hypothetical S&P 500® return**	**End of year balance**
65	$1,000,000	($70,000)	$930,000	-14.67%	$793,569
66	$793,569	-$70,700	$722,869	-26.31%	$532,682
67	$532,682	-$71,407	$461,275	37.14%	$632,593
68	$632,593	-$72,121	$560,472	23.81%	$693,920
69	$693,920	-$72,842	$621,078	-7.19%	$576,422
70	$576,422	-$73,571	$502,852	6.52%	$535,637
71	$535,637	-$74,306	$461,331	18.45%	$546,447
72	$546,447	-$75,049	$471,397	32.45%	$624,366
73	$624,366	-$75,800	$548,566	-4.88%	$521,796
74	$521,796	-$76,558	$445,238	21.50%	$540,964
75	$540,964	-$77,324	$463,640	22.46%	$567,774
76	$567,774	-$78,097	$489,677	6.22%	$520,135
77	$520,135	-$78,878	$441,257	31.64%	$580,871
78	$580,871	-$79,667	$501,204	18.62%	$594,528
79	$594,528	-$80,463	$514,065	5.18%	$540,694
80	$540,694	-$81,268	$459,426	16.61%	$535,737
81	$535,737	-$82,081	$453,656	31.69%	$597,420
82	$597,420	-$82,901	$514,519	-3.10%	$498,568
83	$498,568	-$83,730	$414,838	30.47%	$541,239
84	$541,239	-$84,568	$456,672	7.62%	$491,470
85	$491,470	-$85,413	$406,057	10.08%	$446,987

Tom begins with $1,000,000 and he needs to withdraw $70,000 year in and year out, even in years following market losses.

By selling into market losses, Tom's exacerbated the losses. In just 20 years, and with just 1% inflation, Tom's eroded his portfolio 55.3% of the original nest egg.

Past performance of the S&P 500® Index is no guarantee of future results. Clients cannot invest directly into the S&P 500® Index. The *Wall Street Journal* echoes these concerns. It's what they call the Sequence of Returns — noting that market losses, particularly early in retirement, can erode the overall portfolio and affect long-term retirement funds.[2]

But what if Tom could turn off the withdrawals in down years, or in the years following down years? Then he wouldn't be selling into those losses, but he will need an alternative source of funds for his living expenses. **This is where a cash value life insurance policy can be important.**

Retirement account						Life insurance policy			
Age	Beginning of year balance	Annual withdrawal	Post-withdrawal balance	Hypothetical S&P 500®	End of year balance	Premiums	Death benefit	Withdrawal loan	End of year cash value
65	$1,000,000	$70,000	$930,000	-14.67%	$793,591	$6,500	$500,000	$0	$192,833
66	$793,591	$0	$793,591	-26.31%	$584,807	$0	$446,551	$50,904	$151,153
67	$584,807	$0	$584,807	37.14%	$802,010	$0	$389,895	$51,413	$106,843
68	$802,010	$72,121	$729,889	23.81%	$903,670	$0	$384,389	$0	$114,293
69	$903,670	$72,842	$830,827	-7.19%	$771,118	$0	$378,609	$0	$122,140
70	$771,118	$0	$771,118	6.52%	$821,406	$0	$316,920	$52,971	$74,805
71	$821,406	$74,306	$747,100	18.45%	$884,925	$0	$307,766	$0	$80,670
72	$884,925	$75,049	$809,876	32.45%	$1,072,648	$0	$305,699	$0	$86,860
73	$1,072,648	$75,800	$996,848	-4.88%	$948,199	$0	$309,970	$0	$93,450
74	$948,199	$0	$948,199	21.50%	$1,152,091	$0	$256,599	$55,122	$42,504
75	$1,152,091	$77,324	$1,074,767	22.46%	$1,316,144	$0	$257,669	$0	$46,792
76	$1,316,144	$78,097	$1,238,047	6.22%	$1,315,048	$0	$259,094	$0	$51,409
77	$1,315,048	$78,878	$1,236,170	31.64%	$1,627,337	$0	$261,226	$0	$56,545
78	$1,627,337	$79,667	$1,547,671	18.62%	$1,835,788	$0	$262,704	$0	$61,790
79	$1,835,788	$80,463	$1,755,325	5.18%	$1,846,239	$0	$263,847	$0	$67,085
80	$1,846,239	$81,268	$1,764,971	16.61%	$2,058,104	$0	$265,797	$0	$73,189
81	$2,058,104	$82,081	$1,976,023	31.69%	$2,602,150	$0	$268,654	$0	$80,179
82	$2,602,150	$82,901	$2,519,249	-3.10%	$2,441,045	$0	$272,039	$0	$88,145
83	$2,441,045	$0	$2,441,045	30.47%	$3,184,730	$0	$212,331	$60,286	$33,208
84	$3,184,730	$84,568	$3,100,162	7.62%	$3,336,374	$0	$213,047	$0	$38,814
85	$3,336,374	$85,413	$3,250,960	10.08%	$3,578,616	$0	$213,404	$0	$44,687

By turning off retirement withdrawals in years following negative market years, Tom's portfolio has now increased from $1,000,000 to $3,578,616, or 258%.

It's handled by withdrawals or loans from a moderately funded cash value life insurance policy that Tom started during his working years. Plus, because the cash values can come out of a policy income tax-free, Tom doesn't need to take out as much income as he might from a taxable asset.

This is a supplemental illustration and must be read in conjunction with the basic illustration. The values represented here are for a BrightLife® Grow with level death benefit on a 45-year-old male preferred non-smoker at a 6% crediting rate and non-guaranteed charges. The values reflect the payment of $8,000 of annual premiums payable until age 65. If guaranteed rates and charges are used, the policy would fail in year 22. The values here are intended to offer a hypothetical representation based on illustrated rates when this marketing item went to print in September 2019. Actual results will vary based on the underwriting classification and crediting rate offered when an illustration is on a different date.

Other considerations

Withdrawal rates from retirement assets are subject to debate among planners.

The withdrawal rate shown here may or may not be appropriate for your specific situation. In some instances a lower withdrawal rate may be appropriate; in other instances this may be an appropriate withdrawal rate.[1]

This presentation is based on a hypothetical scenario where Tom receives low and negative early returns.

Past performance is not predictive of future performance; your actual results will be different. If it turns out that the market is strong in your early years of retirement, you will have directed funds to life insurance premiums and may not need to access the cash values.

If you are able to achieve strong early-year returns, you won't have the same risk related to your retirement funds, but you will have a life insurance death benefit and its cash values to enhance your overall financial goals. This strategy is intended to address the concerns you might see if you don't receive strong early returns, as was the case in much of the 2000s.

There is usually a surrender charge that will vary by type of policy.

These charges usually run 15 years or longer, and will affect the available amount you have to withdraw or borrow from your policy at any given time. There are also cost of insurance and other policy charges that will impact your cash value. Work with your financial professional to understand the timing and limitations based on your overall goals and objectives.

The strategy presented here is intended to reflect a broad concept and individual situations will be different.

In certain cases, you will not have complete flexibility with all assets.

In many instances, IRA and qualified plan assets will require minimum distributions (RMDs) after age 70½. This will force assets out of retirement funds even in years following market losses.

How much life insurance you can purchase and the price you pay will depend on medical and financial underwriting.

Your results will vary based on your underwriting offer.

To make this effective, you will need a long-term buy-and-hold strategy with a cash value life insurance policy.

IMPORTANT NOTE

Under current federal tax rules, you generally may take federal income tax-free withdrawals up to your basis (total premiums paid) in the policy or loans from a life insurance policy that is not a Modified Endowment Contract (MEC). Certain exceptions may apply for partial withdrawals during the policy's first 15 years. If the policy is a MEC, all distributions (withdrawals or loans) are taxed as ordinary income to the extent of gain in the policy, and may also be subject to an additional 10% premature distribution penalty prior to age 59½, unless certain exceptions are applicable. Loans and partial withdrawals will decrease the death benefit and cash value of your life insurance policy, and may be subject to policy limitations and income tax. In addition, loans and partial withdrawals may cause certain policy benefits or riders to become unavailable and may increase the chance your policy may lapse. If the policy lapses, is surrendered or becomes a MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values.

Why us?

We offer:

Low-cost indexed universal life
Offers clients seeking security for their families and retirement assets the added security of both downside risk and preserving more of their premium dollars toward cash value accumulation.

Custom features
A suite of other “built-in” features includes riders that can further customize your insurance policy to your needs, including a Charitable Legacy Rider®, which offers an additional death benefit to the charities of your choice and a Long-Term Care Services℠ Rider. Note that some riders have additional costs and all have restrictions and limitations. Be sure to review these details with your financial professional.

1 Wade Pfau, Michael Finke, Duncan Williams, Spending Flexibility and Safe Withdrawal Rates, Journal of Financial Planning, http://www.fpanet.org/journal/SpendingFlexibilityandSafeWithdrawalRates/. The authors note "we find that the 4% retirement withdrawal rate strategy may only be appropriate for risk-averse clients with moderate guaranteed income sources; a risk-tolerant client may prefer a withdrawal rate of between 5% and 7% with a guaranteed income of $20,000."

2 Kelly Greene, "How Much Stock to Own in Retirement?" The Wall Street Journal, February 3, 2014.

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